

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name St. Joseph County Road Commission	County St. Joseph
Fiscal Year End December 31, 2007	Opinion Date April 28, 2008	Date Audit Report Submitted to State April 29, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

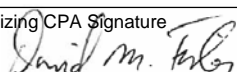
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State Mi	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

**ST. JOSEPH COUNTY ROAD  
COMMISSION**

**(a Component Unit of St. Joseph County)**

**Centreville, Michigan**

**FINANCIAL STATEMENTS**

**For The Year Ended December 31, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

**ST. JOSEPH COUNTY ROAD COMMISSION**  
**(a Component Unit of St. Joseph County)**

**TABLE OF CONTENTS**

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	<u><b>PAGE</b></u>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-9
<b>Basic Financial Statements for the Year Ended December 31, 2007</b>	
Statement of Net Assets and General Fund Balance Sheet	10
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	11
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	13
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual	14
Notes to Financial Statements	15-24
<b>Operating Fund Schedules</b>	
General Operating Fund – Schedule of Revenue, Expenditures and Changes in Fund Balances	25
General Operating Fund – Detail Schedule of Revenue and Other Financing Sources – Budget and Actual	26
General Operating Fund – Detail Schedule of Expenditures – Budget and Actual	27
<b>Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	28-29

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

April 28, 2008

Members of the Board of County  
Road Commissioners  
County of St. Joseph, Michigan  
Centreville, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **ST. JOSEPH COUNTY ROAD COMMISSION**, a component unit of St. Joseph County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the St. Joseph County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **St. Joseph County Road Commission** as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2008, on our consideration of St. Joseph County Road Commissions' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **St. Joseph County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the St. Joseph County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2007.

### Financial Highlights

The St. Joseph County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the St. Joseph County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$30,801,963 at the end of the fiscal year.

When comparing the fiscal year to the previous year, net assets have increased by \$1,305,894. This was comprised of an increase of \$1,707,756 in net capital assets, and a decrease of \$401,862 in unrestricted net assets.

At the end of the current fiscal period, unreserved fund balance was \$1,271,093 or 14.23% of total general fund expenditures.

The Road Commission's debt decreased by \$160,255 during the current fiscal year as a result of scheduled principal payments paid on installment debt; no new debt was issued in 2007.

### Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide Statements

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Road Commission's overall fiscal position.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Road Commission is principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within St. Joseph County.

The government-wide financial statements include only the Road Commission itself. The Road Commission has no legally separate component units for which the Road Commission is financially accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for St. Joseph County, which reports the Road Commission as a component unit.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same functions reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Road Commission does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.



Comparative condensed financial statement data follows:

<b>Condensed Statement of Net Assets</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Current Assets	\$ 3,456,212	\$ 3,645,352
Capital Assets	<u>29,047,328</u>	<u>27,499,827</u>
Total Assets	<u>32,503,540</u>	<u>31,145,179</u>
Long-term liabilities outstanding	331,681	491,936
Other liabilities	<u>1,369,896</u>	<u>1,157,174</u>
Total liabilities	<u>1,701,577</u>	<u>1,649,110</u>
Net assets:		
Invested in capital assets	28,856,989	27,138,691
Restricted	0	0
Unrestricted	<u>1,944,974</u>	<u>2,357,378</u>
<b>Total net assets</b>	<b><u>\$ 30,801,963</u></b>	<b><u>\$ 29,496,069</u></b>
 <b>Condensed Statement of Activities</b>		
<b>Revenue</b>		
State Aid	\$ 5,953,930	\$ 4,815,548
Federal sources	656,361	0
Local and other sources	<u>1,919,518</u>	<u>1,558,959</u>
Total revenue	<u>8,529,809</u>	<u>6,374,507</u>
<b>Expenses</b>		
Public Works	7,212,027	6,174,664
Debt Service - Interest only	<u>11,888</u>	<u>21,371</u>
Total expenses	<u>7,223,915</u>	<u>6,196,035</u>
Change in Net Assets	1,305,894	178,472
<b>Net assets:</b>		
<b>Beginning of year</b>	<b><u>29,496,069</u></b>	<b><u>29,317,597</u></b>
<b>End of year</b>	<b><u>\$ 30,801,963</u></b>	<b><u>\$ 29,496,069</u></b>

In 2007, the Road Commission had a net decrease in fund balance of \$403,753. Expenditures exceeded revenue sources. On a government-wide basis, net assets increased by approximately \$1,305,900, due primarily to the dynamics of capital asset additions exceeding depreciation expense by approximately \$1,549,000.

The Road Commission amended its 2007 Revenue Budget to reflect a decrease in Michigan Transportation Fund (MTF) revenues. Due to delays in scheduling the restoration of the historic Langley Covered Bridge project and in the Longnecker Road Bridge replacement project, the budget was amended to eliminate those sources of revenue. Other state and federal revenues were adjusted to reflect the various stages of project completion. At the time the 2007 budget was prepared in 2006, the Road Commission did not anticipate the road improvements to Millard Road that were completed due to the construction of the Wal-Mart in Three Rivers. Therefore, the revenue budget was amended to include this revenue source. Revenue budgeted from local sources was decreased because of lower township participation on local road projects than what was originally projected. The budget was amended to reflect higher than anticipated interest earnings. The budget was also adjusted to include gain on disposal of fixed assets.

The 2007 Expenditure Budget was amended to adjust road construction and maintenance costs and to reallocate monies between the primary and local road projects. Widespread wind damage in the spring, heavy fall rains and heavy snows in December all contributed to higher maintenance costs. The 2007 budget for equipment expense was projected to break even, but this expense was amended to reflect an increase in expenses and although an increase in equipment rental earned was budgeted, a loss resulted on usage of equipment. The capital outlay expense was amended due to postponement of capital outlay purchases in 2007.

## **Capital Assets and Debt Administration**

### **Capital Assets**

Major capital asset events during the current fiscal year included the following:

Completion of Salt/Sand Storage Building at Centreville Garage Facility ...	\$101,227
Building and Grounds Improvements at Centreville & Colon Facilities .....	\$103,781
Road Equipment Additions.....	\$148,520
New Computer Server and Upgrades.....	\$ 14,470

Infrastructure assets reflect construction and improvements to the primary and local road system

St. Joseph County Road Commission Capital Assets (net of depreciation):

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 8,214,486	\$ 7,886,981
Buildings	884,281	718,849
Road Equipment	597,216	893,772
Shop Equipment	62,700	68,782
Office Equipment	23,042	29,263
Engineering Equipment	7,247	10,660
Yard & Storage Equipment	0	0
Depletable Assets	54,383	55,953
Infrastructure		
Roads and Bridges	<u>19,203,973</u>	<u>17,835,567</u>
<b>Total</b>	<b><u>\$ 29,047,328</u></b>	<b><u>\$ 27,499,827</u></b>

Additional information on the Road Commission's capital assets can be found in Note 3 in the Notes to the Financial Statements.

<b>Long-term Debt</b>	<u>2007</u>	<u>2006</u>
Lease Purchase Agreements	\$ 190,339	\$ 361,136
Compensated absences	<u>141,342</u>	<u>130,800</u>
<b>Total</b>	<b><u>\$ 331,681</u></b>	<b><u>\$ 491,936</u></b>

Additional information on the Road Commission's long-term debt can be found in Note 4 in the Notes to the Financial Statements.

### **Economic Factors and Road Fund Budgetary Highlights**

In 2007, Michigan Transportation Funds (MTF) saw a .50% reduction in comparison with 2006 revenues. MTF revenues have been steadily declining since 2004. We do not anticipate an increase in MTF revenues during the 2008 fiscal year. Significant increases in the cost for fuels, grader blades, liquid asphalt, and utilities continued during 2007. The current economic climate has forced the Road Commission to postpone road improvement projects on the primary road system. The Road Commission focused on improving local roads, which were completed with matching funds from the various townships, as well as several primary and local road and bridge projects that were completed with state and federal funding.

The replacement of the Bucknell Road Bridge, in Nottawa Township, was in progress at year-end. Bridge material for the Custer Road Bridge, in Colon Township, was in the bid award stage. Both treated timber bridges are being constructed with a \$30,000 match, which was allocated in 2007 by the St. Joseph County Board of Commissioners. Act 51 requires a match of at least 25% from a source other than MTF revenues and without this appropriation, the Road Commission would be unable to replace bridges on the on the local road systems, that do not qualify for State Local Bridge Funding.

In 2007, the Lutz Road Bridge, in Lockport Township, was replaced with a concrete box beam bridge using State Local Bridge Funds and State TED Funds.

The Big Hill Road Bridge in Fawn River Township was also completed in 2007. This concrete box beam bridge was 95% funded using State Local Bridge Funds.

The Longnecker Road Bridge, in Mendon Township, was in the engineering and design stage and will be constructed in 2008. The cost of this bridge will be 85% funded with Federal Funds and 15% funded with State Local Bridge Funds.

The Balk Road Bridge, in Sturgis Township, and the Flowerfield Road Bridge in Flowerfield Township are both bridges that will qualify for State Local Bridge Funds and were in the engineering and design stage in 2007.

In November of 2007, the Road Commission was notified that the Stowell Road Bridge in Colon Township and the North River Road Bridge, in Constantine Township, both qualified for State Local Bridge Funding during the State's 2010 fiscal year.

Shimmel Road, between Featherstone Road and US 12, was built to All Weather standards in 2007, after being postponed in 2006, to make State TED Funds available for the Lutz Road Bridge replacement. This project was funded with Federal Surface Transportation Funds and Federal and State TED Funds.

The Road Commission continued to pursue Federal Enhancement Funding for the restoration of the historic Langley Covered Bridge. In 2006, engineering and design studies revealed that the estimated cost of the project far exceeded the original approved grant amount. In 2007, the Road Commission received notification that the grant funding was increased to \$550,000. It is anticipated that the project will begin in the fall of 2008.

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool for its liability and property insurance coverage. The Road Commission received a significant refund of over \$175,000 in 2007. Although there are several factors that make the insurance funds available to be refunded, the members' continued commitment to a proactive loss control program contributes greatly. Although refunds may be available in the future, the Pool has cautioned that the refunds not be included in Road Commission budgets as expected income.

The construction of a salt/sand storage structure at the Centreville Garage Facility was completed in early 2007.

In 2004, St. Joseph County voters passed a ten (10) year renewal of a countywide road millage of 1 mill, which is designated for Local Road Maintenance. This millage generated over \$1,067,000 in 2007, and represents approximately 15% of the Road Commission's total operating revenue.

In 2006 the Road Commission contracted with Fleis and Vandenbrink in Grand Rapids to conduct a groundwater sampling and analysis to define the extent of chloride impact at the Road Commission's former Leonidas Garage Facility in the unincorporated Village of Leonidas, which was sold in 1992. This action was taken in response to a Demand Letter received from the Michigan Department of Environmental Quality (DEQ) for the voluntary performance of certain response activities. The DEQ identified the Road Commission as liable for response activities under Part 201, Environmental Remediation, of the Natural Resources and Environmental Protection Act, 1994, PA 451, as amended, for sodium and chloride concentrations found in Leonidas residents' drinking water. In 2006, the findings indicated that there are multiple sources causing the contamination. In a November 2007 status of action report to the DEQ, Fleis and Vandenbrink stated that, in their opinion, the Road Commission is a small, if any, contributor to the current sodium and chloride contamination found in Leonidas' groundwater. The DEQ's position has not changed and is holding the Road Commission liable. The Road Commission recognizes that legal and engineering fees to prove this position would likely exceed expenditures required to provide potable water to the impacted residents. The Road Commission is continuing to work with the DEQ for potential solutions. In December, 2007 Fleis and Vandenbrink sampled well water, a summary of which will be provided to the DEQ. A Sampling and Analysis Plan and an Alternate Residential Potable Water Supply program will be submitted to the DEQ in 2008. At this point in time, the Road Commissions costs remain undetermined.

Increases in the cost of fuel, utility costs, materials and equipment and declining MTF revenues continue to impact Road Commission resources.

### **Requests for Information**

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the St. Joseph County Road Commission, 20914 M-86, Centreville, MI 49032.

## **BASIC FINANCIAL STATEMENTS**

# ST. JOSEPH COUNTY ROAD COMMISSION

## STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

**DECEMBER 31, 2007**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 620,109	\$ -	\$ 620,109
Accounts receivable			
Motor vehicle highway funds	742,857	-	742,857
Due on county road agreements	134,898	-	134,898
Taxes	1,124,550		1,124,550
Other	16,189	-	16,189
Inventories			
Road materials	637,375	-	637,375
Equipment material and parts	180,234	-	180,234
Capital assets			
Assets not being depreciated	-	8,214,486	8,214,486
Assets being depreciated, net	-	20,832,842	20,832,842
<b>Total assets</b>	<b><u>\$ 3,456,212</u></b>	<b><u>29,047,328</u></b>	<b><u>\$ 32,503,540</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 173,223	-	\$ 173,223
Accrued liabilities	57,937	2,386	60,323
Deferred/unearned revenue - property taxes	1,124,550	-	1,124,550
Performance bonds held	11,800	-	11,800
Long-term liabilities			
Due within one year	-	123,413	123,413
Due after one year	-	208,268	208,268
<b>Total liabilities</b>	<b><u>1,367,510</u></b>	<b><u>334,067</u></b>	<b><u>1,701,577</u></b>
<b>Fund Balance/Net Assets</b>			
Fund balance			
Reserved for inventories	817,609	(817,609)	-
Unreserved, undesignated	1,271,093	(1,271,093)	-
<b>Total fund balance</b>	<b><u>2,088,702</u></b>	<b><u>(2,088,702)</u></b>	<b><u>-</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 3,456,212</u></b>		
<b>Net Assets:</b>			
Invested in capital assets, net of related debt		28,856,989	28,856,989
Unrestricted		1,944,974	1,944,974
<b>Total net assets</b>		<b><u>\$ 30,801,963</u></b>	<b><u>\$ 30,801,963</u></b>

The accompanying notes are an integral part of these financial statements.

# ST. JOSEPH COUNTY ROAD COMMISSION

## Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2007

Fund balance - General Fund	\$ 2,088,702
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	29,047,328
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Installment lease purchase agreements payable	(190,339)
Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(2,386)
Deduct - compensated absences payable	<u>(141,342)</u>
Net assets of governmental activities	<u><u>\$ 30,801,963</u></u>

The accompanying notes are an integral part of these financial statements.



# ST. JOSEPH COUNTY ROAD COMMISSION

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2007

	General Operating Fund	Adjustments	Statement of Activities
<b>EXPENDITURES/EXPENSES</b>			
Current:			
Public works	\$ 8,748,986	\$ (1,536,959)	\$ 7,212,027
Debt service:			
Principal	170,797	(170,797)	-
Interest	13,779	(1,891)	11,888
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>8,933,562</b>	<b>(1,709,647)</b>	<b>7,223,915</b>
<b>PROGRAM REVENUES</b>			
Charges for services	757,869	-	757,869
Operating grants and contributions	6,640,291	-	6,640,291
<b>TOTAL PROGRAM REVENUES</b>	<b>7,398,160</b>	<b>-</b>	<b>7,398,160</b>
<b>NET PROGRAM REVENUES</b>			<b>174,245</b>
<b>GENERAL REVENUES</b>			
Property taxes	1,067,222	-	1,067,222
Interest earned	61,691	-	61,691
Property rentals	2,736	-	2,736
<b>TOTAL GENERAL REVENUES</b>	<b>1,131,649</b>	<b>-</b>	<b>1,131,649</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(403,753)</b>	<b>403,753</b>	
<b>CHANGE IN NET ASSETS</b>		<b>1,305,894</b>	<b>1,305,894</b>
<b>FUND BALANCE/NET ASSETS,</b>			
<b>Beginning of year</b>	<b>2,492,455</b>	<b>27,552,851</b>	<b>29,496,069</b>
<b>FUND BALANCE/NET ASSETS, End of year</b>	<b>\$ 2,088,702</b>	<b>29,262,498</b>	<b>\$ 30,801,963</b>

The accompanying notes are an integral part of these financial statements.

## ST. JOSEPH COUNTY ROAD COMMISSION

### Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balances - General Fund	\$ (403,753)
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	376,691
Add - Infrastructure additions	2,994,563
Deduct - depreciation expense	(1,823,292)
Deduct - equipment retirements and adjustments	(461)

Installment lease contract proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Repayment of principal	170,797
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Interest expense is recorded in the statement of activities when a liability is incurred; it is reported in the funds only when payment is due	1,891
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Increase in compensated absences	<u>(10,542)</u>
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Change in net assets of governmental activities	<u>\$ 1,305,894</u>
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The accompanying notes are an integral part of these financial statements.

# ST. JOSEPH COUNTY ROAD COMMISSION

## STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
REVENUE				
Permits	\$ 10,000	\$ 11,600	\$ 12,166	\$ 566
Intergovernmental:				
Federal sources	403,000	655,000	656,361	1,361
State sources	6,843,000	5,922,000	5,953,930	31,930
Local sources	403,500	601,000	707,351	106,351
Charges for services	4,000	7,800	7,864	64
Interest and rentals	27,500	62,700	64,427	1,727
Taxes	1,052,000	1,065,000	1,067,222	2,222
Transfer from primary government	30,000	30,000	30,000	-
Other	-	7,150	30,488	23,338
<b>TOTAL REVENUE</b>	<b>8,773,000</b>	<b>8,362,250</b>	<b>8,529,809</b>	<b>167,559</b>
EXPENDITURES				
Current:				
Construction	-	-	73,931	73,931
Primary heavy maintenance	2,400,000	1,680,000	1,609,612	(70,388)
Local heavy maintenance	1,311,000	1,300,000	1,311,020	11,020
Primary maintenance	1,400,000	2,110,500	1,928,813	(181,687)
Local maintenance	3,010,000	3,510,000	3,498,362	(11,638)
Equipment - net	-	30,000	21,200	(8,800)
Administrative - net	410,000	470,000	454,224	(15,776)
Other	-	-	127	127
Capital outlay - net	50,000	(145,200)	(148,303)	(3,103)
Debt service	184,600	184,600	184,576	(24)
<b>TOTAL EXPENDITURES</b>	<b>8,765,600</b>	<b>9,139,900</b>	<b>8,933,562</b>	<b>(206,338)</b>
NET CHANGE IN FUND BALANCE	7,400	(777,650)	(403,753)	373,897
FUND BALANCE, Beginning of year	2,492,455	2,492,455	2,492,455	-
<b>FUND BALANCE, End of year</b>	<b>\$ 2,499,855</b>	<b>\$ 1,714,805</b>	<b>\$ 2,088,702</b>	<b>\$ 373,897</b>

The accompanying notes are an integral part of these financial statements.

## **NOTES to FINANCIAL STATEMENTS**

# ST. JOSEPH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the St. Joseph County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### **Reporting Entity**

The St. Joseph County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of St. Joseph, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the St. Joseph County Road Commission, a discretely presented component unit of St. Joseph County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

#### **Basis of Presentation**

##### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

# ST. JOSEPH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Measurement Focus Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

### **Budgetary Data**

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund is adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control are disclosed in the accompanying *Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual*.

# ST. JOSEPH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Inventory**

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

### **Fund Balance Reservations**

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

### **Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an initial cost of \$250 or more and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (general fund balance sheet and statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

	<b><u>Years</u></b>
Buildings and improvements	25-50
Equipment	5 to 8
Infrastructure	8 to 50

### **Deferred Compensation Plan**

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

# ST. JOSEPH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

## 2. CASH DEPOSITS AND INVESTMENTS

### Deposits

At December 31, 2007, the amount of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ -	\$ 50,754
Held by St. Joseph County *		
Cash on deposit	620,109	611,765
	<u>\$ 620,109</u>	<u>\$ 662,519</u>

\* Deposits of the Road Commission held by St. Joseph County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution



# ST. JOSEPH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has no investments at December 31, 2007.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Road Commission has no investments at December 31, 2007.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2007, none of the Road Commission's bank balance of \$50,754 was exposed to custodial credit risk because the entire amount was insured. Deposits in the amount of \$611,765 held by St Joseph County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Road Commission has no investments at December 31, 2007.

# ST. JOSEPH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
<b>Capital assets not being depreciated:</b>				
Land	\$ 226,258	\$ -	\$ -	\$ 226,258
Infrastructure land improvements	7,660,723	327,505	-	7,988,228
<b>Total capital assets not being depreciated</b>	<b>7,886,981</b>	<b>327,505</b>	<b>-</b>	<b>8,214,486</b>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	1,238,120	205,008	250	1,442,878
Road equipment	7,292,352	148,521	23,569	7,417,304
Shop equipment	328,213	8,692	3,181	333,724
Office equipment	150,128	14,470	7,660	156,938
Engineers' equipment	54,353	-	-	54,353
Yard and storage	24,355	-	-	24,355
Depletable assets	128,851	-	-	128,851
Infrastructure	39,016,408	2,667,058	39,000	41,644,466
<b>Total capital assets being depreciated</b>	<b>48,232,780</b>	<b>3,043,749</b>	<b>73,660</b>	<b>51,202,869</b>
<b>Accumulated depreciation and depletion:</b>				
Buildings and improvements	519,271	39,326	-	558,597
Equipment	6,846,924	483,744	34,199	7,296,469
Depletable assets	72,898	1,570	-	74,468
Infrastructure	21,180,841	1,298,652	39,000	22,440,493
<b>Total accumulated depreciation and depletion</b>	<b>28,619,934</b>	<b>1,823,292</b>	<b>73,199</b>	<b>30,370,027</b>
<b>Total capital assets being depreciated - net</b>	<b>19,612,846</b>	<b>1,220,457</b>	<b>461</b>	<b>20,832,842</b>
<b>Governmental activities capital assets - net</b>	<b>\$ 27,499,827</b>	<b>\$ 1,547,962</b>	<b>\$ 461</b>	<b>\$ 29,047,328</b>

# ST. JOSEPH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

<b>2007</b>	<b>Balance January 1, 2007</b>	<b>Increases</b>	<b>Reductions</b>	<b>Balance December 31,</b>	<b>Due Within One Year</b>
Land contract and installment lease purchase agreements	\$ 361,136	\$ -	\$ 170,797	\$ 190,339	\$ 93,413
Compensated absences	130,800	10,542	-	141,342	30,000
<b>Totals</b>	<b>\$ 491,936</b>	<b>\$ 10,542</b>	<b>\$ 170,797</b>	<b>\$ 331,681</b>	<b>\$ 123,413</b>

### Capital Leases

The Road Commission has a capitalized lease for 4 MSG International Trucks requiring two remaining principal payments of \$93,413 and \$96,926 in 2008 and 2009, respectively.

The annual requirements to pay principal and interest on debt outstanding at December 31, 2007, are as follows:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 93,413	\$ 7,157	\$ 100,570
2009	96,926	3,644	100,570
<b>Total</b>	<b>\$ 190,339</b>	<b>\$ 10,801</b>	<b>\$ 201,140</b>

# **ST. JOSEPH COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **Accrued Sick and Vacation**

After the first six months of employment, employees earn one vacation day per month of service. In addition, one floating holiday is available every January 1<sup>st</sup>. Seniority days are based on employees' length of service, up to a maximum of 18 days for 40 years of service for all employees. Also, one personal day is granted each year, which cannot be carried over. Up to 15 accrued vacation and seniority days may be carried over and used in the succeeding year.

Sick leave is earned at the rate of 6 days per year and up to 60 days may be accumulated.

The employees' vacation pay, no greater than 80 hours, and sick pay are payable to employees who resign with proper notice, retire, or die.

### **5. PROPERTY TAXES**

In December 2006, St. Joseph County levied 1 mill of real and personal property tax to townships within the County for the benefit of County roads. The total amount of the levy was \$1,067,222. Property taxes become an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable by February 14. The townships within the County bill and collect property taxes for the County, and the taxes are substantially collected by March 1<sup>st</sup>.

### **6. PENSION PLAN**

The Road Commission established the St. Joseph County Road Commission Money Purchase Pension Plan, a single-employer defined contribution plan, on October 15, 1981. The plan, established to meet the requirements of Act No. 249, Public Acts of 1943, covers substantially all employees of the Road Commission. The Road Commission is required to contribute 6% of covered payroll at the end of each plan year. Employees do not contribute to the plan. Fifth Third Bank, Kalamazoo, Michigan is the trustee and administers the pension plan.

Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners. There is no service requirement in order to be eligible to participate in the plan.

Upon termination of employment for reasons other than retirement, total and permanent disability, or death, a participant is entitled to receive 100% of the participant's amount representing the vested percentage of the balance in the participant's employer contribution account at the date of termination of employment.

The Road Commission's contributions for each employee (and interest allocated to the employee's account) are partially vested after three (3) years of continuous service and fully vested after seven (7) years of continuous service.

For the plan year ended October 31, 2007, the Road Commission contributed \$105,036 (representing 6% of covered payroll) to the plan.

# **ST. JOSEPH COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **7. RISK MANAGEMENT**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool “Pool” established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (inter local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The St. Joseph County Road Commission pays an annual premium to the Pool for general liability, excess liability, errors and omissions, auto liability, auto comprehensive, auto collision, equipment and building and contents.

The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers’ compensation as a member of the County Road Association Self Insurance Fund. The estimated amount of the IBNR, or “Incurred But Not Reported” claims associated with the self-insurance arrangements is not considered to be material at December 31, 2007.

The Road Commission continues to carry commercial insurance for all other risks of loss, including life insurance, health program, data processing, commercial crime and boiler and machinery. Settled claims have not exceeded insurance coverage for the last three years.

### **8. CONTINGENCY**

Until 1992, the Road Commission operated a garage in the Village of Leonidas. Over the years, tests have confirmed concentrations of sodium and chloride in the well water. On November 22, 2005, the Michigan Department of Environmental Quality delivered to the Road Commission a demand letter for the voluntary performance of certain response activities under a federal act. The Road Commission does not believe it has full liability for this contamination. The MDEQ has stated that the Road Commission is liable for providing potable water to the affected Village residents. Due to the inconclusive nature of this matter, it is not possible to determine the probable outcome or a reasonable estimate of the Road Commission’s potential liability. No provision for any loss has been made in the accompanying financial statements.

# **ST. JOSEPH COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **9. POSTEMPLOYMENT BENEFITS**

The Road Commission provides both health and life insurance benefits for retired employees meeting specific years of continued service requirements. The Road Commission will provide 100% health insurance coverage comparable to that provided to active employees for those retirees aged 62 to 65, providing the premium for the plan selected remains under the established annual cap. If the retiree selects a plan with a premium over the cap, the Road Commission will, depending on the retiree's classification, pay either 90% or 95% of the health insurance coverage. The Road Commission will provide 100% of the premium for a \$2,000 life insurance policy for retirees aged 62 to 65. Costs incurred by the Road Commission during 2007 amounted to \$13,968. The Road Commission currently has one retired employee receiving benefits under the plan.

The Governmental Accounting Standards Board has recently released Statement No. 45, "Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions." The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008. Management is currently assessing the impact of this new accounting standard on the Road Commission's financial statements for future reporting periods.

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## **OPERATING FUND SCHEDULES**

# ST. JOSEPH COUNTY ROAD COMMISSION

## SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2007

	DESIGNATED		UNDESIGNATED	
	PRIMARY	LOCAL	COUNTY	TOTAL
	ROAD FUND	ROAD FUND	ROAD FUND	
REVENUE				
Permits	\$ -	\$ -	\$ 12,166	\$ 12,166
Intergovernmental:				
Federal sources	656,361			656,361
State sources	4,027,293	1,926,637	-	5,953,930
Local sources	-	707,351	-	707,351
Charges for services	-		7,864	7,864
Interest and rentals	28,821	19,387	16,219	64,427
Taxes				
County wide millage	-	1,067,222	-	1,067,222
Transfer from primary government	-	30,000	-	30,000
Other	6,733	94	23,661	30,488
TOTAL REVENUE	4,719,208	3,750,691	59,910	8,529,809
EXPENDITURES				
Construction	-	73,931	-	73,931
Heavy maintenance	1,609,612	1,311,020	-	2,920,632
Maintenance	1,928,813	3,498,362	-	5,427,175
Equipment - net	5,050	11,872	4,278	21,200
Administrative - net	190,844	263,380	-	454,224
Other	-	127	-	127
Capital outlay - net	(40,320)	-	(107,983)	(148,303)
Debt principal	-	-	170,797	170,797
Interest and fiscal charges	-	-	13,779	13,779
TOTAL EXPENDITURES	3,693,999	5,158,692	80,871	8,933,562
REVENUE OVER (UNDER)				
EXPENDITURES	1,025,209	(1,408,001)	(20,961)	(403,753)
OTHER FINANCING SOURCES (USES)				
Internal transfers in	-	949,771	-	949,771
Internal transfers out	(949,771)	-	-	(949,771)
TOTAL OTHER FINANCING SOURCES (USES)	(949,771)	949,771	-	-
NET CHANGE IN FUND BALANCES	75,438	(458,230)	(20,961)	(403,753)
FUND BALANCE, Beginning of year	1,164,414	783,276	544,765	2,492,455
FUND BALANCE, End of year	\$ 1,239,852	\$ 325,046	\$ 523,804	\$ 2,088,702



# ST. JOSEPH COUNTY ROAD COMMISSION

## DETAIL SCHEDULE OF REVENUE BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2007

	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
Permits	\$ 11,600	\$ 12,166	\$ 566
Federal sources:			
Surface Transportation Program	655,000	484,140	(170,860)
D - Funds	-	172,221	172,221
	<u>655,000</u>	<u>656,361</u>	<u>1,361</u>
State sources:			
Motor Vehicle Highway Funds - Act 51:			
Engineering	10,000	10,000	-
Primary roads allocation	2,950,000	2,976,692	26,692
Local roads allocation	1,540,000	1,541,805	1,805
Primary urban roads	189,000	189,210	210
Local urban roads	73,000	73,740	740
Economic Development Fund	370,000	369,958	(42)
State Critical Bridge	790,000	792,525	2,525
Total State Sources	<u>5,922,000</u>	<u>5,953,930</u>	<u>31,930</u>
Local sources:			
Township and developer contributions	<u>601,000</u>	<u>707,351</u>	<u>106,351</u>
Charges for services:			
Salvage sales	<u>7,800</u>	<u>7,864</u>	<u>64</u>
Interest and rentals	<u>62,700</u>	<u>64,427</u>	<u>1,727</u>
Taxes:			
County wide millage	<u>1,065,000</u>	<u>1,067,222</u>	<u>2,222</u>
Transfer from primary government	<u>30,000</u>	<u>30,000</u>	<u>-</u>
Other:			
Gain on equipment disposal	7,100	18,719	11,619
Other	<u>50</u>	<u>11,769</u>	<u>11,719</u>
Total Other Revenue	<u>7,150</u>	<u>30,488</u>	<u>23,338</u>
 TOTAL REVENUE	 <u>\$ 8,362,250</u>	 <u>\$ 8,529,809</u>	 <u>\$ 167,559</u>

# ST. JOSEPH COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND DETAIL SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2007

	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
Construction	\$ -	\$ 73,931	\$ 73,931
Heavy maintenance:			
Primary roads and structures	1,680,000	1,609,612	(70,388)
Local roads and structures	1,300,000	1,311,020	11,020
Total Heavy Maintenance	2,980,000	2,920,632	(59,368)
Maintenance:			
Primary roads and structures, winter and traffic control	2,110,500	1,928,813	(181,687)
Local roads and structures, winter and traffic control	3,510,000	3,498,362	(11,638)
Total Maintenance	5,620,500	5,427,175	(193,325)
Equipment:			
Direct	970,000	970,854	854
Indirect	560,000	590,745	30,745
Operating	400,000	416,871	16,871
Less: Equipment rental	(1,900,000)	(1,957,270)	(57,270)
Total Equipment, net	30,000	21,200	(8,800)
Administrative:			
Administration	470,000	454,224	(15,776)
Capital outlay:			
Buildings and equipment	375,000	376,691	1,691
Less - Depreciation	(520,000)	(524,640)	(4,640)
- Retirements	(200)	(354)	(154)
Total Capital Outlay, net	(145,200)	(148,303)	(3,103)
Other	-	127	127
Debt service:			
Principal retirement	170,800	170,797	(3)
Interest and fiscal charges	13,800	13,779	(21)
Total Debt Service	184,600	184,576	(24)
<b>TOTAL EXPENDITURES</b>	<b>\$ 9,139,900</b>	<b>\$ 8,933,562</b>	<b>\$ (206,338)</b>



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

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**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

April 28, 2008

Members of the Board of County  
Road Commissioners  
County of St. Joseph, Michigan  
Centreville, Michigan

We have audited the financial statements of the governmental activities and each major fund of the **ST. JOSEPH COUNTY ROAD COMMISSION** as of and for the year ended December 31, 2007, and have issued our report thereon dated April 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered St. Joseph County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency, as defined above.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider the deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting.

Limiting access to key financial data through strong password and access policies is a key IT control. St Joseph County Road Commission does not have a strong set of password controls that limit access to company financial information. We recommend that management oversee increasing password and other controls to include, but not limited to, the following matters:

1. We understand that computer passwords at the network and financial accounting software level are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the Road Commission institute a policy that requires passwords to be changed on a regular basis. For the size and complexity of St Joseph County Road Commission, once every six months would be adequate. The Road Commission may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.
2. When users vacate the work areas for any length of time they should be locking their workstations. Windows provides an effective workstation security system that can be invoked with one set of keystrokes. Locking a personal workstation is a basic control that limits access to accounting records by unauthorized individuals. We recommend that St Joseph County Road Commission require all PC users to lock their workstations when they are unattended.
3. Usernames and passwords are a key control for limiting access to an organizations network and financial reporting system. Passwords should be forced by the system to be at least eight characters with a combination of letters, numbers and special characters. Currently, St Joseph County Road Commission does not force either of these controls at the network or financial application level. We recommend that the network and accounting system be set to force complex passwords.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of St. Joseph County Road Commission in a separate letter dated April 28, 2008.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether St. Joseph County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Road Commissioners, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



April 28, 2008

To the Board of County Road Commissioners of the  
County of St. Joseph  
Centreville, Michigan

We have audited the financial statements of *St Joseph County Road Commission* for the year ended December 31, 2007, and have issued our report thereon dated April 28, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated November 29, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the *St Joseph County Road Commission*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Road Commission's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 10, 2008.

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No adjusting entries were proposed.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 28, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *St Joseph County Road Commission* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

# **St Joseph County Road Commission**

## **Comments and Recommendations**

**For the Year Ended December 31, 2007**

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In planning and performing our audit of the financial statements of the St Joseph County Road Commission as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

### **Other Matters**

#### **Parts Room Access**

A separate area has now been configured to allow more security for the inventory parts inventory. Road Commission management should be commended for this change. However, per our observation, we noted that the Storeroom clerk is unable to be present at all times in the parts room to release and record the parts being used, making the area still susceptible for unauthorized use of inventory items for non Road Commission purposes.

In order to enhance the internal controls in this area, we recommend that the Road Commission explore ways to have the parts area controlled by a responsible individual at all times.

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